



Chicago, Milwaukee, St. Paul and Pacific Railroad Company

516 West Jackson Boulevard
Chicago, Illinois 60606
Phone 312/648-3000

October 27, 1979

TO ALL CONCERNED:

Beginning Monday, furlough notices will go out covering positions not needed in the areas which will be embargoed at 11:59 p.m. October 31 in compliance with Friday's court order. As a general rule, I suggest that you make no decisions nor judgments as to your particular status until those notices have been issued, and until the needs of the directed carriers are known. This information will be coming from the directed carriers after they are formally designated by the ICC. As you know, the law requires that "the directed carrier shall hire employees of the other carrier" -- that's the Milwaukee Road -- "to the extent such employees had previously performed the direct service for the other carrier, and, as to such employees as shall be so hired, the directed carrier shall be deemed to have assumed all existing employment obligations and practices of the other carrier relating thereto, including, but not limited to, agreements covering rate of pay, rules and working conditions, and all employee protective conditions commencing with and for the duration of the direction." There will be a period of several days before we have all the answers we need in order to transmit definitive information to you on force levels and associated matters.

In the meantime, the following will be our policy on labor protection, vacation pay, back pay, unemployment and other benefits, and pensions until further notice.

LABOR PROTECTION: Some furloughed employees have collective-bargaining agreements which may provide them with certain protections. We do not yet know that such labor-protection provisions will apply in this situation. However, even if they do, our understanding is that there will not be cash available to actually pay protection claims in the near future and that any such claims will become claims against the estate. Please note that we are referring here only to labor protection under collective-bargaining agreements. Labor protection as might be provided by the Interstate Commerce Commission or the reorganization court is a different issue. The question of claims arising from labor-protection conditions imposed by the ICC in the event of abandonments or transfers of control in a reorganization or liquidation is a complicated one. Its resolution involves the laws and principles governing the Commission and courts, the relative roles of the Commission and the reorganization court, and the constitutional rights of

creditors and the estate. It is impossible to predict the status or priority of such claims in reorganization or liquidation, the control the reorganization court would have over the amounts actually paid out, or the limits the Constitution places on them.

VACATION PAY: Given the cash position of the railroad at present and as we expect it to be for the balance of 1979 and into 1980, we will not be in a position to make payment of vacation pay to employees who are furloughed. Vacation pay due furloughed employees will be a claim against the estate. Many employees who are furloughed as a result of the Trustee's embargo action will have worked a sufficient number of days in the year 1979 to qualify for a vacation in the year 1980 and this obligation, too, will become a claim against the estate. The foregoing will apply to employees retiring or leaving our employ for other reasons subsequent to the effective date of the embargo. Any vacation time due and not taken will become a claim against the estate.

BACK PAY: Back pay due to employees as a result of recently negotiated national agreements which were approved by the reorganization court was originally approved for payment on a cash-available basis. The reorganization court has since ordered us to hold payment of back pay until further direction is given by the court. Inasmuch as our cash position does not, and will not, permit resumption or the beginning of payment of back pay, this obligation will become a claim against the estate. The General Chairmen representing our employees were informed of this by letter dated June 29, 1979.

FURLOUGHED EMPLOYEES' UNEMPLOYMENT AND OTHER BENEFITS: Most of the furloughed employees who do not immediately find jobs elsewhere will be eligible for unemployment compensation provided by the Railroad Unemployment Insurance Act which is funded entirely by railroad contributions. This insurance pays qualified employees \$125 a week for periods of up to 24 months.

Furloughed union employees: The following benefits will also be provided to furloughed union employees: medical coverage to the end of the fourth month following the month in which compensated service was rendered (includes dependents); life insurance coverage to the end of the month in which compensated service was last rendered; accidental death, dismemberment and loss-of-sight coverage to the end of the fourth month following the month in which compensated service was last rendered; dental coverage to the end of the fourth month following the month in which compensated service was last rendered.

Furloughed nonunion employees: The following benefits will be provided to furloughed nonunion employees: medical and dental

coverage to the end of the second month following the month in which compensated service was last rendered; basic and supplemental life insurance coverage to the end of the second month following the month in which compensated service was last rendered. Furloughed employees would be eligible to take a conversion policy at their own expense, but without physical examination, when regular coverage under the group plan expires.

PENSIONS: Pension rights will continue to accrue under the Railroad Retirement Act for active employees, including those performing service for directed-service railroads. Employees drawing pension benefits under the Railroad Retirement Act will not be affected by the embargo. Employees already drawing benefits under the railroad's pension plan for management employees would continue to do so. The potential impact of the Employees Retirement Income Security Act ("ERISA") on the management employees' pension plan in the present circumstances is being investigated.

Worthington L. Smith
President